

CITY OF HARLAN

**INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4 - 5
Management's Discussion and Analysis	6 - 9
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Activities and Net Assets - Cash Basis	A 10 - 11
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 12 - 14
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statements of Activities and Net Assets	C 15
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 16
Notes to Financial Statements	18 - 29
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	31 - 32
Notes to Required Supplementary Information - Budgetary Reporting	33
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 35 - 38
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Other Special Revenue Funds	2 39 - 40
Schedule of Indebtedness	3 41
Bond and Note Maturities	4 42
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5 43
Schedule of Expenditures of Federal Awards	6 44
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters	46 - 48
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	50 - 51
Schedule of Findings and Questioned Costs	52 - 55

**CITY OF HARLAN
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Christiansen	Mayor	December, 2009
Dave Miller	Mayor pro tem	December, 2011
Aaron Anliker	Council Member	December, 2009
Rhonda Brown	Council Member	December, 2011
Keith Kaufman	Council Member	December, 2009
David Pedersen	Council Member	December, 2011
Orv Roecker	Council Member	December, 2009
Terry Cox	City Administrator	Indefinite
Susan Lambert	City Clerk	Indefinite
Marjorie Ahrenholtz	City Treasurer	Indefinite
Joseph Lauterbach	City Attorney	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

August 28, 2009

Certified Public Accountant

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

305 W. High Street
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Harlan's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the Harlan Municipal Utilities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and my opinion, insofar as it relates to the amounts included for the Harlan Municipal Utilities, is based on the report of the other auditors.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

August 28, 2009
To the Honorable Mayor and
Members of the City Council
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated August 28, 2009 on my consideration of the City of Harlan's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9, and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally in inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Harlan's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which are prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

M. J. H. Associates, CPA, P.C.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

As management of the City of Harlan, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's financial statements include three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

Government-wide financial statement: This statement consists of a Statement of Activities and Net Assets and provides information about the activities of the City as a whole and presents an overview of the City's finances.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has two kinds of funds.

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Tax, and Urban Renewal Tax Increment, 3) Debt Service Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The Internal Service Fund is used to accumulate resources and allocate costs of the City's self-funded health insurance plan.
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two sewer funds for current operations and future sewer projects. Also included with Enterprise Funds is the activity of Harlan Municipal Activities. All three are considered major funds of the City.

A reconciliation between the government-wide statement and the fund financial statement follows the fund financial statements.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

ANALYSIS OF SIGNIFICANT CHANGES IN FINANCIAL POSITION AND NET ASSETS

Net assets may serve over time as a useful indicator of financial position. The cash basis net assets of the City's governmental activities decreased \$1.2 million from the prior fiscal year. Changes in the cash basis net assets of the City's governmental activities are as follows:

Changes in Net Assets of Governmental Activities			
Year ended June 30,			
	2009		2008
Receipts:			
Program receipts:			
Charges for services	\$ 1,961,133	\$	1,890,221
Operating grants, contributions and restricted interest	700,360		634,109
Capital grants, contributions and restricted interest	1,280,168		432,286
General receipts:			
Property tax	1,412,877		1,386,471
Tax increment financing	517,593		493,868
Debt service	313,267		236,234
Local option tax	409,136		420,119
Hotel / motel tax	35,725		18,538
Unrestricted investment earnings	19,281		60,729
Miscellaneous	36,403		-0-
Bond proceeds	528,410		3,778,211
Sale of assets	9,932		110,939
Transfers, net	293,423		(126,132)
Total receipts	7,517,708		9,335,593
Disbursements:			
Public safety	983,002		1,043,969
Public works	1,132,733		1,119,022
Culture and recreation	833,871		811,031
Community and economic development	211,368		359,763
General government	465,307		466,907
Debt service	1,124,564		633,710
Capital projects	2,947,130		2,274,980
Nonprogram	1,023,823		1,090,791
Total disbursements	8,721,798		7,800,173
Increase (decrease) in cash	(1,204,090)		1,535,420
Net assets, beginning of year	2,206,660		671,240
Net assets, end of year	\$ 1,002,570	\$	2,206,660

The City of Harlan partnered with Superior Midwest Foods, Iowa Western Community College and the Petersen Family Wellness Center as discussed in Footnote 15. The City completed three significant capital projects for the most part in the year ending June 30, 2009: (1) the G.H. Christiansen Subdivision was platted in the \$2.1 million Dye Street Project, (2) the HMA street resurfacing project made possible by a \$1 million Highway Planning and Construction Grant, and (3) the Airport Improvement Program Grant for taxiway construction at the municipal airport.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

The cash basis of the net assets of the City's business type activities increased by \$778,690 or 5.9 per cent during the fiscal year ended June 30, 2009. The following is the changes in the cash basis of the net assets of the City's business type activities:

Changes in Net Assets of Business Type Activities			
Year ended June 30,			
	2009		2008
Receipts:			
Program receipts:			
Charges for services and sales:			
Sewer	\$ 732,287	\$	798,842
HMU Component unit	12,824,151		13,982,204
Operating grants, contributions, and restricted interest	268,880		393,033
Capital grants, contributions, and restricted interest	-0-		-0-
General receipts:			
Unrestricted interest	917		-0-
Miscellaneous	356,510		-0-
Loan proceeds	23,515		-0-
Transfers, net	(293,423)		126,132
Total receipts	13,912,837		15,300,211
Disbursements:			
Sewer	578,240		571,172
HMU Component unit	12,555,907		13,383,095
Total disbursements	13,134,147		13,954,267
Increase (decrease) in cash	778,690		1,345,944
Net assets, beginning of year	13,146,444		11,800,500
Net assets, end of year	\$ 13,925,134	\$	13,146,444

ANALYSIS BETWEEN ACTUAL AND BUDGET AMOUNTS

The City amended its budget on May 8, 2009. The amended budget increased revenue by \$625,000 and increased disbursements by approximately \$3.6 million, the majority of which increased governmental disbursements for the year ended June 30, 2009. Actual disbursements exceeded budgeted amounts in the public safety, culture and recreation, general government and debt service functions for the year ended June 30, 2009.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

DEBT ADMINISTRATION

Outstanding Debt at Year-End		
	2009	2008
General obligation bonds	\$ 5,085,000	\$ 5,450,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,085,000 is significantly below its constitutional debt limit of \$12.3 million. During the year ended June 30, 2009, the City refinanced its Combined Issue Bonds, Series 1999, and issued GO Refunding Bonds, Series 2009, and as a result of lower interest rates will realize a significant interest savings in future years.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Harlan's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates, and fees that will be charged for various City activities. Amounts available for appropriation in the operating budget are \$32.3 million, an increase of 10.2 million over the final 2009 budget. Budgeted disbursements are expected to increase by \$2.3 million, an increase of 9 percent over the final 2009 budget.

If these estimates are realized, the City's budgeted cash balances are expected to increase by \$2.8 million by the end of fiscal year 2010.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Susan Lambert, City Clerk, 711 Durant Street, Harlan, Iowa.

CITY OF HARLAN

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Disbursements</u>	<u>Charges for Services</u>	<u>Program Receipts Operating Grants, Contributions, And Restricted Interest</u>	<u>Capital Grants, Contributions And Restricted Interest</u>
Functions / Programs:				
Governmental activities:				
Public safety	\$ 983,002	\$ 82,346	\$ 35,303	\$ 18,517
Public works	1,132,733	402,795	438,246	-0-
Community and economic dev	211,368	-0-	84,000	-0-
Culture and recreation	833,871	184,457	38,896	16,193
General government	465,307	415,037	100,975	-0-
Debt service	1,124,564	-0-	-0-	-0-
Capital projects	2,947,130	-0-	2,940	1,245,458
Nonprogram - contractual services	1,023,823	876,498	-0-	-0-
Total governmental activities	<u>8,721,798</u>	<u>1,961,133</u>	<u>700,360</u>	<u>1,280,168</u>
Business type activities:				
Sewer	578,240	732,287	62,309	-0-
HMU - Component unit	<u>12,555,907</u>	<u>12,824,151</u>	<u>206,571</u>	<u>-0-</u>
Total business type activities	<u>13,134,147</u>	<u>13,556,438</u>	<u>268,880</u>	<u>-0-</u>
Total	\$ <u>21,855,945</u>	\$ <u>15,517,571</u>	\$ <u>969,240</u>	\$ <u>1,280,168</u>
General receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Hotel / motel tax				
Local option tax				
Unrestricted investment earnings				
Miscellaneous				
Bond proceeds				
Sale of property				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

	Net (Disbursements), Receipts and Changes in Net Assets		
	Governmental Activities	Business Type Activities	Total
Functions / Programs:			
Governmental activities:			
Public safety	\$ (846,836)	\$ -0-	\$ (846,836)
Public works	(291,692)	-0-	(291,692)
Community and economic dev	(127,368)	-0-	(127,368)
Culture and recreation	50,705	-0-	50,705
General government	(17,422)	-0-	(17,422)
Debt service	(1,124,564)	-0-	(1,124,564)
Capital projects	(1,698,732)	-0-	(1,698,732)
Nonprogram - contractual services	(147,325)	-0-	(147,325)
Total governmental activities	(4,780,137)	-0-	(4,780,137)
Business type activities:			
Sewer	-0-	216,356	216,356
HMU - Component unit	-0-	474,815	474,815
Total business type activities	-0-	691,171	691,171
Total	(4,780,137)	691,171	(4,088,966)
	1,412,877	-0-	1,412,877
	517,593	-0-	517,593
	313,267	-0-	313,267
	35,725	-0-	35,725
	409,136	-0-	409,136
	19,281	917	20,198
	36,403	356,510	392,913
	528,410	23,515	551,925
	9,932	-0-	9,932
	293,423	(293,423)	-0-
	3,576,047	87,519	3,663,566
	(1,204,090)	778,690	(425,400)
	2,206,660	13,146,444	15,353,104
\$	<u>1,002,570</u>	<u>\$ 13,925,134</u>	<u>\$ 14,927,704</u>
	29,439	-0-	29,439
	12,769	-0-	12,769
	960,362	13,925,134	14,885,496
\$	<u>1,002,570</u>	<u>\$ 13,925,134</u>	<u>\$ 14,927,704</u>

CITY OF HARLAN

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	General	Special Revenue Employee Benefits	Debt Service
Receipts:			
Property tax	\$ 1,196,298	\$ 213,193	\$ 312,599
Tax increment financing	-0-	-0-	-0-
Other city tax	38,599	512	668
Licenses and permits	70,919	-0-	-0-
Use of money and property	74,994	-0-	-0-
Intergovernmental	315,244	-0-	-0-
Charges for services	523,572	-0-	-0-
Special assessments	-0-	-0-	-0-
Miscellaneous	64,208	-0-	-0-
Total receipts	<u>2,283,834</u>	<u>213,705</u>	<u>313,267</u>
Disbursements:			
Operating:			
Public safety	910,590	-0-	-0-
Public works	630,563	-0-	-0-
Culture and recreation	749,892	-0-	-0-
Community and economic development	-0-	-0-	-0-
General government	452,028	-0-	-0-
Debt service	-0-	-0-	1,124,564
Capital projects	-0-	-0-	-0-
Total disbursements	<u>2,743,073</u>	<u>-0-</u>	<u>1,124,564</u>
Excess (deficiency) of receipts over (under) disbursements	(459,239)	213,705	(811,297)
Other financing sources (uses):			
Sale of property	3,800	-0-	-0-
Proceeds on bond sales	-0-	-0-	528,410
Operating transfers in	249,205	409,136	291,907
Operating transfers out	(162,207)	(418,273)	-0-
Total other financing sources (uses)	<u>90,798</u>	<u>(9,137)</u>	<u>820,317</u>
Net change in cash balances	(368,441)	204,568	9,020
Cash balances, beginning of year	<u>536,985</u>	<u>-0-</u>	<u>3,749</u>
Cash balances, end of year	\$ <u>168,544</u>	\$ <u>204,568</u>	\$ <u>12,769</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -0-	\$ -0-	\$ 12,769
Unreserved:			
General fund	168,544	-0-	-0-
Special revenue funds	-0-	204,568	-0-
Capital projects funds	-0-	-0-	-0-
Total cash basis fund balances	\$ <u>168,544</u>	\$ <u>204,568</u>	\$ <u>12,769</u>

See notes to financial statements.

Capital Projects			
Dye Street Project	Street Overlay	Other Nonmajor	Total
\$ -0-	\$ -0-	\$ -0-	\$ 1,722,090
-0-	-0-	517,593	517,593
-0-	-0-	409,136	448,915
-0-	-0-	-0-	70,919
-0-	-0-	3,182	78,176
-0-	772,137	917,076	2,004,457
-0-	-0-	11,279	534,851
-0-	4,841	2,281	7,122
2,940	99,485	257,543	424,176
<u>2,940</u>	<u>876,463</u>	<u>2,118,090</u>	<u>5,808,299</u>
-0-	-0-	72,412	983,002
-0-	-0-	502,170	1,132,733
-0-	-0-	83,979	833,871
-0-	-0-	211,368	211,368
-0-	-0-	13,279	465,307
-0-	-0-	-0-	1,124,564
1,038,332	1,198,307	710,491	2,947,130
<u>1,038,332</u>	<u>1,198,307</u>	<u>1,593,699</u>	<u>7,697,975</u>
(1,035,392)	(321,844)	524,391	(1,889,676)
-0-	-0-	6,132	9,932
-0-	-0-	-0-	528,410
474,596	71,197	367,398	1,863,439
-0-	-0-	(1,039,536)	(1,620,016)
<u>474,596</u>	<u>71,197</u>	<u>(666,006)</u>	<u>781,765</u>
(560,796)	(250,647)	(141,615)	(1,107,911)
<u>694,730</u>	<u>138,645</u>	<u>576,023</u>	<u>1,950,132</u>
\$ <u>133,934</u>	\$ <u>(112,002)</u>	\$ <u>434,408</u>	\$ <u>842,221</u>
\$ -0-	\$ -0-	\$ -0-	\$ 12,769
-0-	-0-	-0-	168,544
-0-	-0-	631,806	836,374
133,934	(112,002)	(197,398)	(175,466)
<u>\$ 133,934</u>	<u>\$ (112,002)</u>	<u>\$ 434,408</u>	<u>\$ 842,221</u>

	Internal Service Funds		
	Benefits	Group Insurance Trust	Total
Operating receipts:			
Use of money and property	\$ -0-	\$ -0-	\$ -0-
Charges for services	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-
Total receipts	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Operating disbursements:			
Public safety	-0-	-0-	-0-
Public works	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-
General government	-0-	-0-	-0-
Business type activities	-0-	-0-	-0-
Total disbursements	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Operating income (loss)	-0-	-0-	-0-
Non-operating receipts (disbursements):			
Interest on investments	-0-	1,146	1,146
Reimbursements	4,855	871,643	876,498
Contractual services	(4,549)	(1,019,274)	(1,023,823)
Transfer in	-0-	50,000	50,000
Transfer out	-0-	-0-	-0-
Net non-operating receipts (disbursements)	<u>306</u>	<u>(96,485)</u>	<u>(96,179)</u>
Excess (deficiency) of receipts over (under) disbursements	306	(96,485)	(96,179)
Cash balances, beginning of year	<u>-0-</u>	<u>256,528</u>	<u>256,528</u>
Cash balances, end of year	\$ <u>306</u>	\$ <u>160,043</u>	\$ <u>160,349</u>
Cash Basis Fund Balances			
Unreserved:			
Total fund balance	\$ <u>306</u>	\$ <u>160,043</u>	\$ <u>160,349</u>

See notes to financial statements.

CITY OF HARLAN

RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Total governmental funds cash balances (page 13)	\$	842,221
--	----	---------

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan. The Internal Service Fund is included in governmental activities in the Statement of Activities and Net Assets

160,349

Cash basis net assets of governmental activities (page 11)	\$	1,002,570
--	----	-----------

Net change in cash balances (page 13)	\$	(1,107,911)
---------------------------------------	----	-------------

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan. The change in net assets of the Internal Service Fund is reported with governmental activities.

(96,179)

Change in cash balance of governmental activities (page 11)	\$	(1,204,090)
---	----	-------------

CITY OF HARLAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES -
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Funds			
	Sewer	Sewer Equipment Replacement	HMU Component Unit	Total
Operating receipts:				
Use of money and property	\$ 917	\$ -0-	\$ -0-	\$ 917
Charges for services	732,287	-0-	12,824,151	13,556,438
Miscellaneous	356,510	-0-	-0-	356,510
Total operating receipts	1,089,714	-0-	12,824,151	13,913,865
Operating disbursements:				
Business type activities	554,277	23,963	12,555,907	13,134,147
Excess (deficiency) of operating receipts over (under) operating disbursements	535,437	(23,963)	268,244	779,718
Non-operating receipts (disbursements):				
Interest on investments	-0-	62,309	206,571	268,880
Reimbursements	-0-	-0-	-0-	-0-
Loan proceeds	-0-	-0-	23,515	23,515
Transfer in	7,618	715,962	-0-	723,580
Transfer out	(542,406)	(474,597)	-0-	(1,017,003)
Net non-operating receipts (disbursements)	(534,788)	303,674	230,086	(1,028)
Net change in cash balances	649	279,711	498,330	778,690
Cash balances, beginning of year	42,677	2,539,317	10,564,450	13,146,444
Cash balances, end of year	\$ 43,326	\$ 2,819,028	\$ 11,062,780	\$ 13,925,134
Cash Basis Fund Balances				
Unreserved				
Total cash basis fund balances	\$ 43,326	\$ 2,819,028	\$ 11,062,780	\$ 13,925,134

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(1) Summary of Significant Accounting Policies

The City of Harlan is a political subdivision of the State of Iowa located in Shelby County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes the City of Harlan has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits or impose specific financial burdens on the City. The City has one component unit, which meets the Government Accounting Standards Board criteria.

These financial statements present the City of Harlan (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discrete Component Unit - The Harlan Municipal Utilities is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the Mayor/City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Shelby County Emergency Management Commission, Shelby County Ambulance Commission and The Shelby County Solid Waste Agency Board.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(1) Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Employee Benefits, a Special Revenue Fund, accounts for taxes levied for the City's portion of statutory employee benefits such as social security, medicare and retirement contributions.

The Debt Service Fund accounts for the principal and interest payments on the City's general long-term debt obligations.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The major Capital Projects Funds are the Dye Street Project and the Street Overlay Project. Capital Project Funds account for resources such as grants and bond proceeds and City infrastructure costs.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sewer Equipment Replacement Fund aggregates funds for future sewer projects.

The City reports former expendable trust funds (pre GASB-34) as other special revenue funds as they do not readily fall into GASB-34 Fiduciary fund categories of pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds or permanent (formerly non-expendable) trust funds.

C. Measurement Focus and Basis of Accounting

The City of Harlan maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. At June 30, 2009, disbursements exceed amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2007, to compute the amounts, which became liens on property on July 1, 2007. These taxes were due and payable in two installments on September 30, 2008 and March 31, 2009. These taxes are recognized as income to the City when they are received from the county.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(2) Deposits

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

For the year ended June 30, 2009, \$3,864,924 was on deposit at local banks as demand deposits and certificates of deposit.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2010	\$ 450,000	\$ 198,644
2011	460,000	182,290
2012	490,000	167,550
2013	495,000	151,220
2014	345,000	134,040
2015 - 2019	895,000	533,076
2020 - 2024	1,130,000	324,401
2025 - 2027	820,000	71,463
	<u>\$ 5,085,000</u>	<u>\$ 1,762,684</u>

The City has a general obligation debt limit of approximately \$12.3 million which was not exceeded during the year ended June 30, 2009.

The resolutions providing for the issuance of the general obligation debt include the following provisions:

- (a) The levy of taxes sufficient to provide payment of principal and interest when due.
- (b) Proceeds of the tax levy are to be collected in the debt service fund or a special revenue fund of the City, as it is applicable.

The City is in compliance with debt resolutions.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. The City's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$96,525, \$93,935, and \$91,345, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* during the year ended June 30, 2009.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 32 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/dental/prescription drug coverage is provided through a self-insured plan with Auxiant. Retirees under age 65 pay the same premium for the medical/dental/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$384 for single coverage and \$795 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2009, the City contributed approximately \$254,000 and plan members eligible for benefits contributed approximately \$21,500 to the plan.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and floating holiday hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 52,180
Compensatory time	32,774
Floating holiday	4,354
	<u>\$ 89,308</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

(7) Self - Insurance Program

The City has established a self-insurance medical program, which is accounted for in the Group Insurance Fund (an internal service fund). This program provides employee health benefit coverage up to maximum of \$40,000 per employee per year. The City purchases commercial insurance for claims in excess of this coverage and all other risks of loss. The City pays all claims and is reimbursed from the re-insurer for excess claims. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

All funds of the City participated in the program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The unpaid claims liability of \$143,967 is based on Government Accounting Standards Board Statement No. 10, which requires that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in unpaid claims are as follows:

Unpaid claims, beginning of year	\$ 78,644
Incurred claims	808,036
Payments	<u>(742,713)</u>
Unpaid claims, end of year	<u>\$ 143,967</u>

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(8) Deficit Fund Balances

As of June 30, 2009, the following funds had deficit balances:

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Housing Rehab	\$ 2,603
Fire Grant	3,802
Local Option	36,189
Capital Projects:	
Harlan Plaza	858
Airport Improvement	67,197
Sewer Rehabilitation	150,418
Street Overlay	112,002
College Park Plaza	18,628
Fire Station	4,690
Total	\$ <u>396,387</u>

The deficit balances were a result of project costs incurred prior to availability of funds. Material deficits will be eliminated upon receipt of grant funds and transfer of funds upon completion of the projects.

(9) Risk Management

The City of Harlan is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Urban Renewal

Harlan Urban Renewal Area

The original Harlan Urban Renewal Plan was dated April 1989 and was amended in June 1992, October 1993, March 2000, February 2002, March 2005, November 2006 and April 2008. Areas of the city within the urban renewal area include the Downtown Business District, the C. G. Therkildsen Center, G.H. Christiansen Subdivision, the Wastewater Treatment and the Industrial Park areas.

Laurel Street Urban Renewal Area

The Laurel Street Urban Renewal Area is a stand alone urban renewal plan adopted in March 2005 for residential development at the former Laurel School site.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(11) Tax Increment Financing

The TIF receipts are recorded in the urban renewal fund then expended or transferred as follows:

	<u>2009</u>	<u>2008</u>
Cash balance, beginning of year	\$ 37,500	\$ -0-
Tax Increment Financing receipts	517,593	493,868
General Fund payback	<u>37,500</u>	<u>37,500</u>
TIF Funds available	592,593	531,368
Legal fees	4,912	-0-
Transfers to:		
Debt Service Fund	291,907	261,943
Street Overlay	-0-	32,192
General Fund	25,500	25,500
Sewer Equipment Replacement Fund	183,556	136,133
Industrial Park Fund	<u>34,768</u>	<u>38,100</u>
Total transfers and legal fees	540,643	493,868
Cash balance, end of year	\$ <u>51,950</u>	\$ <u>37,500</u>

In 2001, the City entered into 28E Agreements with Shelby County and the Harlan Community School District to remit a portion of TIF funds based on formula to both Shelby County and the Harlan Community School District for capital improvements and economic development, respectively.

During the fiscal year ended June 30, 2005, the State Auditor's Office questioned the 28E Agreements with the county and the school district on the grounds that the TIF funds may not be expended by the county and the school district except in urban renewal areas of the City. The State Auditor's Office also questioned the City's compliance with Chapter 403 of the Code of Iowa (Urban Renewal and Tax Increment Financing) and recommended the City consult with legal counsel to ensure compliance with provisions of Chapter 403 and the City's Urban Renewal Plan.

In November 2005, as a result of the State Auditor's inquiry and recommendation by legal counsel, the City Council voted to terminate participation in the 28E Agreements with both Shelby County and the Harlan Community School District effective July 1, 2006. In addition, the City's General Fund will pay back the TIF funds it transferred to the General Fund for fiscal years 2004, 2005 and 2006. The \$300,000 payback will be appropriated for fiscal years 2007 through 2014. For the year ended June 30, 2009, the General Fund reimbursed the Urban Renewal Fund \$37,500. \$225,000 remains outstanding.

Transfers to the sewer equipment replacement fund represent repayment of funds that were expended in prior years for sewer infrastructure in urban renewal areas. The payment schedule is beyond the scope of this footnote but is on file at the city clerk's office for inspection. For the year ended June 30, 2009, the Urban Renewal Fund transferred \$183,556 to the Sewer Equipment Replacement Fund.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(12) Related Party Transactions

Business transactions between the City and City officials totaled \$1,087 for the year ended June 30, 2009.

(13) Budget Over-expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2009, disbursements in the public safety, culture and recreation, general government and debt service functions exceeded the amounts budgeted.

(14) Grants

Iowa West Foundation

In January 2007, the City of Harlan was awarded a \$200,000 grant from the Iowa West Foundation for development of College Park Plaza. The grant required a 50/50 match from the City. As of June 30, 2009, grant funds of \$97,169 had been received.

In May 2008, the City was awarded a \$5,000 grant from the Iowa West Foundation for playground equipment. The grant required a 50/50 match from the City and expired June 30, 2009. For the year ended June 30, 2009, all grant funds had been received.

FEMA Grants

In November 2, 2007, the Harlan Fire Department was awarded an Assistance to Firefighters Grant from the Federal Emergency Management Agency to aid in the purchase of a new compressor, pagers and portable radios. The \$67,329 grant required a local match of 5% or \$3,543. For the year ended June 30, 2009, the Fire Department had received all funds. The grant expired on November 1, 2008.

Surface Transportation Program Grant

On February 14, 2008, the City was awarded a \$1 million Surface Transportation Program Grant through the Iowa Department of Transportation for the resurfacing of various streets in the City of Harlan. For the year ended June 30, 2009, \$869,305 of the grant funds had been received.

Community Economic Betterment Program

On October 16, 2008, Superior Midwest Foods, LLC was awarded a \$42,000 loan and a \$42,000 forgivable loan from the Iowa Department of Economic Development. Provisions applicable to the CEBA program required that the City of Harlan submit an application on behalf of Superior Midwest Foods, LLC to the Iowa Department of Economic Development. For the year ended June 30, 2009, all funds had been received and remitted to Superior Midwest Foods, LLC.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(14) Grants (Continued)

2007 VFA IV (Title IV) Grant

On July 28, 2008, the City was awarded a \$1,751 grant from the Iowa Department of Natural Resources, Conservation and Recreation Division Forestry Bureau. All funds were received for the year ended June 30, 2009.

Shelby County Endowment Fund

For the year ended June 30, 2009, the Harlan Fire Department received a \$1,800 grant and a \$1,000 grant from the Shelby County Endowment Fund for the purchase of a hazardous materials suit and ice chains, respectively.

Federal Aviation Administration Grant

For the year ended June 30, 2009, the Harlan Municipal Airport was awarded a \$651,085 Airport Improvement Grant from the Federal Aviation Administration. The matching grant requires a 5% or \$128,850 local match. For the year ended June 30, 2009, the City received \$276,864 in grant funds.

(15) Commitments

Harlan Country Club Estates

In September 1999, the City entered into an agreement with Harlan Country Club Estates, Inc. for the construction of road infrastructure in a residential development area. Under the terms of the agreement, the City agrees to pay \$15,100 per housing unit. There are 25 units and the City remains obligated for 8 infrastructure payments. For the year ended June 30, 2009, the City paid \$30,200 pursuant to the agreement.

Ambulance Commission of Shelby County

On March 7, 2005, the City entered into a joint voluntary undertaking with Myrtue Memorial Hospital for the formation of the Ambulance Commission of Shelby County, as authorized by Chapter 28E of the 2005 Code of Iowa. The commencement date of the joint undertaking was July 1, 2006. The city administrator and an individual appointed by the mayor and approved by city council serve on the five-member board of directors. The Ambulance Commission was established to provide ambulance services to the citizens of Harlan and Shelby County, Iowa. The agreement commits the City of Harlan to contribute 33-1/3% of the total cost of providing ambulance service to Shelby County. For the year ended June 30, 2009, the City contributed \$32,666.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(15) Commitments (Continued)

E911 Communications Center Services

On August 7, 2001, the City contracted with Shelby County to provide E911 communications services through the Shelby County Emergency Management Commission for Harlan beginning July 1, 2001 and ending June 30, 2006. The communications services provided to Harlan during this period included dispatching, answering phones for the Harlan Police Department on night and weekends, MCIC access, city alarm monitoring and radio log maintenance and reports. After June 30, 2006, the parties will continue this contract on a year to year basis. For the year ended June 30, 2009, the City contributed \$84,141 to Shelby County for E911 services.

Agreement for GIS Services

In July 2003, the City of Harlan, Harlan Municipal Utilities and Shelby County entered into an agreement for the exchange and distribution of Geographic Information System (GIS) data. Shelby County developed a digital graphic and tabular database depicting land and cadastral data. This agreement is effective until July 1, 2008 and stipulates an annual fee of \$15,000. For the year ended June 30, 2009, the City contributed \$15,000 to Shelby County for GIS services.

Performance Agreement - CiDirect, Inc.

On December 1, 2006, the City entered into a refundable conditional grant agreement with CiDirect, Inc. for the formation and maintenance of at least eighty-six new full-time jobs for five years. The refundable conditional grant amount is \$129,000 and obligates CiDirect, Inc. to refund the grant or portion of the grant with interest in the event of default.

Performance Agreement - Variety Distributors, Inc.

On February 19, 2008, the City entered into a forgivable loan agreement with Variety Distributors, Inc. as an incentive to create at least sixty full time equivalent jobs in the community and maintain them over a five year period. The \$60,000 forgivable loan bears interest at 7% and matures on March 1, 2013. The debt will be forgiven upon satisfaction of the terms of the agreement.

Performance Agreement - Superior Midwest Foods, LLC

On October 15, 2008, the City entered into a forgivable loan agreement with Superior Midwest Foods, Inc. as an incentive to maintain eleven full time equivalent jobs through December 31, 2016 and create and maintain another nineteen full time equivalent jobs for five years by December 31, 2016. The \$16,800 forgivable loan bears interest at 7% and matures on December 31, 2016. The debt will be forgiven upon satisfaction of the terms of the agreement.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(15) Commitments (Continued)

G.H. Christiansen Subdivision

In May 2007, the City began infrastructure development on a forty-acre tract of land in north Harlan. The \$2.5 million project will provide 79 single and multi-family housing lots. The grading, street development and installation of gas, water, electric, phone, fiber optics and sewer lines were completed in the prior year. For the year ended June 30, 2009, the City expended \$1,038,333 for the Subdivision development.

Petersen Family Wellness Center

On January 22, 2008, the City committed \$500,000 in eligible tax increment financing funds to the construction of a community wellness center. The first of five payments of \$100,000 is due July 1, 2009.

Shelby County DevelopSource

On March 4, 2008, the City committed \$25,000 to Shelby County DevelopSource for fiscal years 2009, 2010, and 2011. The organization promotes and coordinates economic development and monitors the City's performance agreements with CiDirect, Variety Distributors, and Superior Midwest Foods, LLC.

College Park Plaza

On September 4, 2007, The City and Iowa Western Community College entered into a 28E Agreement, as authorized by Chapter 28E of the 2005 Code of Iowa, for the construction of an IWCC campus on City owned property. The satellite campus provides classrooms for IWCC and an information technology center as well as other facilities that promote the economic development of the community. The agreement required the City to contribute \$500,000 to the project. For the year ended June 30, 2009, the City contributed \$500,000.

On June 3, 2008, the Harlan Industrial Foundation committed \$625,000 to the College Park construction project and the City agreed to reimburse the Foundation \$125,000 in TIF eligible funds in five equal payments due July 1, 2009 through 2013. There are no fees or interest costs to the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARLAN

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2009

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Property tax	\$ 1,722,090	\$ -0-
Tax increment financing	517,593	-0-
Other city tax	448,915	-0-
Licenses and permits	70,919	-0-
Use of money and property	78,176	269,797
Intergovernmental	2,004,457	-0-
Charges for services	534,851	13,556,438
Special assessments	7,122	-0-
Miscellaneous	424,176	356,510
Total receipts	<u>5,808,299</u>	<u>14,182,745</u>
Disbursements:		
Public safety	983,002	-0-
Public works	1,132,733	-0-
Culture and recreation	833,871	-0-
Community and economic development	211,368	-0-
General government	465,307	-0-
Debt service	1,124,564	-0-
Capital projects	2,947,130	-0-
Business type	-0-	13,134,147
Nonprogram	146,179	-0-
Total disbursements	<u>7,844,154</u>	<u>13,134,147</u>
Excess (deficiency) of receipts over (under) disbursements	(2,035,855)	1,048,598
Other financing sources, net	<u>831,765</u>	<u>(269,908)</u>
Excess (deficiency) of receipts and other financing sources	(1,204,090)	778,690
Balance beginning of year	<u>2,206,660</u>	<u>13,146,444</u>
Balance end of year	\$ <u>1,002,570</u>	\$ <u>13,925,134</u>

See Accompanying Independent Auditor's Report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 1,722,090	\$ 1,687,392	\$ 1,687,392	\$ 34,698
517,593	536,905	536,905	(19,312)
448,915	370,167	382,167	66,748
70,919	24,000	34,000	36,919
347,973	163,580	163,580	184,393
2,004,457	1,828,671	1,828,671	175,786
14,091,289	16,866,748	16,941,748	(2,850,459)
7,122	-0-	-0-	7,122
780,686	39,330	567,330	213,356
19,991,044	21,516,793	22,141,793	(2,150,749)
983,002	903,660	963,660	(19,342)
1,132,733	1,024,745	1,194,745	62,012
833,871	753,928	821,928	(11,943)
211,368	-0-	228,000	16,632
465,307	450,170	462,170	(3,137)
1,124,564	605,036	1,114,036	(10,528)
2,947,130	1,483,810	3,908,810	961,680
13,134,147	16,635,297	16,753,297	3,619,150
146,179	-0-	-0-	(146,179)
20,978,301	21,856,646	25,446,646	4,468,345
(987,257)	(339,853)	(3,304,853)	2,317,596
561,857	2,100,000	2,100,000	(1,538,143)
(425,400)	1,760,147	(1,204,853)	779,453
15,353,104	15,353,104	15,353,104	-0-
\$ 14,927,704	\$ 17,113,251	\$ 14,148,251	\$ 779,453

CITY OF HARLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$5,515,040. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceed the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2009

	Special Revenue							Other Spec Rev Funds
	Road Use	Local Option Tax	Urban Renewal	Equipment Revolving	Ragbrai	Industrial Park	Fire	
Receipts:								
\$	-0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	-0-
Property tax	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Tax increment financing	-0-	-0-	517,593	-0-	-0-	-0-	-0-	-0-
Other City tax	-0-	409,136	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	-0-	-0-	-0-	-0-	-0-	905	-0-	156
Intergovernmental	438,246	-0-	-0-	-0-	-0-	84,000	18,517	2,280
Charges for services	-0-	-0-	-0-	8,160	-0-	-0-	-0-	3,119
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	139,023	-0-	-0-	-0-	-0-
Total receipts	438,246	409,136	517,593	147,183	94,328	84,905	18,517	24,192
								29,747
Disbursements:								
Operating:								
Public safety	-0-	-0-	-0-	45,533	5,717	-0-	20,513	649
Public works	409,502	25,785	-0-	66,883	-0-	-0-	-0-	-0-
Culture and recreation	-0-	10,000	-0-	59,954	-0-	-0-	-0-	14,025
Comm and econ development	-0-	-0-	4,912	-0-	68,127	138,329	-0-	-0-
General government	-0-	-0-	-0-	13,279	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total disbursements	409,502	35,785	4,912	185,649	73,844	138,329	20,513	14,674
Excess (deficiency) of receipts over (under) disbursements	28,744	373,351	512,681	(38,466)	20,484	(53,424)	(1,996)	15,073

See accompanying independent auditor's report.

SCHEDULE 1

Capital Projects						
	College Plaza	Fire Station	Airport Improve	Knudsen	Sewer Rehab	Other Projects
						Total
Receipts: (Continued)						
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	-0-	-0-	-0-	517,593
Other City tax	-0-	-0-	-0-	-0-	-0-	409,136
Use of money and property	2,121	-0-	-0-	-0-	-0-	3,182
Intergovernmental	97,169	-0-	276,864	-0-	-0-	917,076
Charges for services	-0-	-0-	-0-	-0-	-0-	11,279
Special assessments	-0-	-0-	-0-	2,281	-0-	2,281
Miscellaneous	-0-	-0-	-0-	-0-	-0-	257,543
Total receipts	99,290	-0-	276,864	2,281	-0-	2,118,090
Disbursements:						
Operating:						
Public safety	-0-	-0-	-0-	-0-	-0-	72,412
Public works	-0-	-0-	-0-	-0-	-0-	502,170
Culture and recreation	-0-	-0-	-0-	-0-	-0-	83,979
Comm and econ development	-0-	-0-	-0-	-0-	-0-	211,368
General government	-0-	-0-	-0-	-0-	-0-	13,279
Capital projects	379,396	39,962	276,009	-0-	15,124	710,491
Total disbursements	379,396	39,962	276,009	-0-	15,124	1,593,699
Excess (deficiency) of receipts over (under) disbursements	(280,106)	(39,962)	855	2,281	(15,124)	524,391

	Special Revenue							
	Road Use	Local Option Tax	Urban Renewal	Equipment Revolving	Ragbrai	Industrial Park	Fire	Other Spec Rev Funds
Excess (deficiency) of receipts over (under) disbursements	28,744	373,351	512,681	(38,466)	20,484	(53,424)	(1,996)	15,073
Other financing sources (uses):								
Sale of property	-0-	-0-	-0-	3,007	-0-	3,125	-0-	-0-
Bond proceeds	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Transfers in	-0-	-0-	37,500	285,297	-0-	34,768	-0-	9,833
Transfers out	(2,000)	(478,687)	(535,731)	(7,618)	(15,500)	-0-	-0-	-0-
	(2,000)	(478,687)	(498,231)	280,686	(15,500)	37,893	-0-	9,833
Net change in cash balances	26,744	(105,336)	14,450	242,220	4,984	(15,531)	(1,996)	24,906
Cash balances beginning of year	2,695	69,147	37,500	170,472	(4,984)	153,275	(1,806)	15,066
Cash balances end of year	\$ 29,439	\$ (36,189)	\$ 51,950	\$ 412,692	\$ -0-	\$ 137,744	\$ (3,802)	\$ 39,972
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ 29,439	\$ (36,189)	\$ 51,950	\$ 412,692	\$ -0-	\$ 137,744	\$ (3,802)	\$ 39,972
Capital projects funds	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total cash basis fund balances	\$ 29,439	\$ (36,189)	\$ 51,950	\$ 412,692	\$ -0-	\$ 137,744	\$ (3,802)	\$ 39,972

See accompanying independent auditor's report

SCHEDULE 1 (Cont'd)

	Capital Projects					
	College Plaza	Fire Station	Airport Improve	Knudsen	Sewer Rehab	Other Projects Total
Excess (deficiency) of receipts over (under) disbursements	(280,106)	(39,962)	855	2,281	(15,124)	-0- 524,391
Other financing sources (uses):						
Sale of property	-0-	-0-	-0-	-0-	-0-	-0- 6,132
Bond proceeds	-0-	-0-	-0-	-0-	-0-	-0- -0-
Transfers in	-0-	-0-	-0-	-0-	-0-	-0- 367,398
Transfers out	-0-	-0-	-0-	-0-	-0-	-0- (1,039,536)
	-0-	-0-	-0-	-0-	-0-	-0- (666,006)
Net change in cash balances	(280,106)	(39,962)	855	2,281	(15,124)	-0- (141,615)
Cash balances beginning of year	261,478	35,272	(68,052)	24,062	(135,294)	17,192 576,023
Cash balances end of year	\$ (18,628)	\$ (4,690)	\$ (67,197)	\$ 26,343	\$ (150,418)	\$ 17,192 \$ 434,408
Cash Basis Fund Balances						
Unreserved:						
Special revenue funds	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0- 631,806
Capital projects funds	(18,628)	(4,690)	(67,197)	26,343	(150,418)	17,192 (197,398)
Total cash basis fund balances	\$ (18,628)	\$ (4,690)	\$ (67,197)	\$ 26,343	\$ (150,418)	\$ 17,192 \$ 434,408

CITY OF HARLAN

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - OTHER SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2009

	Housing Rehab	Library Trust	Beebe Trust	Police Trust	Play Ground	Hansen Trust	Allen Trust	Total
Receipts:								
Property tax	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Other City tax	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	-0-	156	-0-	-0-	-0-	-0-	-0-	156
Intergovernmental	-0-	2,280	-0-	-0-	-0-	-0-	-0-	2,280
Charges for services	-0-	-0-	-0-	3,119	-0-	-0-	-0-	3,119
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	16,192	7,000	-0-	-0-	-0-	1,000	24,192
Total receipts	-0-	18,628	7,000	3,119	-0-	-0-	1,000	29,747
Disbursements:								
Operating:								
Public safety	-0-	-0-	-0-	649	-0-	-0-	-0-	649
Public works	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	-0-	11,320	2,000	-0-	705	-0-	-0-	14,025
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total disbursements	-0-	11,320	2,000	649	705	-0-	-0-	14,674

SCHEDULE 2

	Housing Rehab	Library Trust	Beebe Trust	Police Trust	Play Ground	Hansen Trust	Allen Trust	Total
Excess (deficiency) of receipts Over (under) disbursements	-0-	7,308	5,000	2,470	(705)	-0-	1,000	15,073
Other financing sources (uses):								
Transfers in	9,833	-0-	-0-	-0-	-0-	-0-	-0-	9,833
Transfers out	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
	9,833	-0-	-0-	-0-	-0-	-0-	-0-	9,833
Net change in cash balances	9,833	7,308	5,000	2,470	(705)	-0-	1,000	24,906
Cash balances beginning of year	(12,436)	8,781	10,922	2,553	3,127	1,436	683	15,066
Cash balances end of year	\$ (2,603)	\$ 16,089	\$ 15,922	\$ 5,023	\$ 2,422	\$ 1,436	\$ 1,638	\$ 39,972
Cash Basis Fund Balances								
Special revenue funds	(2,603)	16,089	15,922	5,023	2,422	1,436	1,683	39,972
Total cash basis fund balances	\$ (2,603)	\$ 16,089	\$ 15,922	\$ 5,023	\$ 2,422	\$ 1,436	\$ 1,683	\$ 39,972

See accompanying independent auditor's report.

**CITY OF HARLAN
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2009**

	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due
<u>Obligation</u>									
General Obligation Bonds:									
Refinancing Capital Note	Jan 1, 2004	1.50 - 3.60%	\$ 1,770,000	\$ 1,030,000	\$ -0-	\$ 205,000	\$ 825,000	\$ 38,178	\$ 2,274
Refunding Bonds	Mar 16, 2009	1.80 - 2.60%	530,000	-0-	530,000	-0-	530,000	-0-	3,373
Combined Issue	Jul 20, 1999	4.10 - 5.10%	1,355,000	605,000	-0-	605,000	-0-	160,580	-0-
Combined Issue	Aug 7, 2007	4.00 - 4.30%	3,815,000	3,815,000	-0-	85,000	3,730,000	24,007	13,098
				<u>\$ 5,450,000</u>	<u>\$ 530,000</u>	<u>\$ 895,000</u>	<u>\$ 5,085,000</u>	<u>\$ 222,765</u>	<u>\$ 18,745</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 4

**CITY OF HARLAN
BOND AND NOTE MATURITIES
JUNE 30, 2009**

General Obligation Bonds and Note

Refinancing
Capital Loan Note
Issued Jan 1, 2004

Combined Issue
Callable June 30, 2015
Issued Jul 10, 2007

Combined Issue
Issued Mar 16, 2009

Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2010	3.00%	\$ 200,000	4.00%	\$ 155,000	1.80%	\$ 95,000	\$ 450,000
2011	3.20%	195,000	4.00%	160,000	2.00%	105,000	460,000
2012	3.40%	215,000	4.00%	165,000	2.20%	110,000	490,000
2013	3.60%	215,000	4.00%	170,000	2.40%	110,000	495,000
2014	--	-0-	4.25%	235,000	2.60%	110,000	345,000
2015	--	-0-	4.25%	165,000	--	-0-	165,000
2016	--	-0-	4.25%	170,000	--	-0-	170,000
2017	--	-0-	4.25%	180,000	--	-0-	180,000
2018	--	-0-	4.25%	185,000	--	-0-	185,000
2019	--	-0-	4.25%	195,000	--	-0-	195,000
2020	--	-0-	4.25%	205,000	--	-0-	205,000
2021	--	-0-	4.25%	215,000	--	-0-	215,000
2022	--	-0-	4.25%	225,000	--	-0-	225,000
2023	--	-0-	4.25%	235,000	--	-0-	235,000
2024	--	-0-	4.25%	250,000	--	-0-	250,000
2025	--	-0-	4.25%	260,000	--	-0-	260,000
2026	--	-0-	4.30%	275,000	--	-0-	275,000
2027	--	-0-	4.30%	285,000	--	-0-	285,000
		<u>\$ 825,000</u>		<u>\$ 3,730,000</u>		<u>\$ 530,000</u>	<u>\$ 5,085,000</u>

See Accompanying Independent Auditor's Report

CITY OF HARLAN
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE LAST FOUR YEARS

Receipts:	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Property tax	\$ 1,722,090	\$ 1,616,821	\$ 1,490,434	\$ 1,369,632
Tax increment financing collections	517,593	493,868	746,189	1,199,550
Other city tax	448,915	444,541	348,062	294,368
Licenses and permits	70,919	74,021	62,066	65,371
Use of money and property	78,176	161,454	116,655	106,389
Intergovernmental	2,004,457	1,176,419	853,006	1,381,898
Charges for service	534,851	440,585	412,506	402,974
Special assessments	7,122	5,404	14,435	977
Miscellaneous	424,176	168,180	204,896	156,695
Bond proceeds	528,410	3,778,211	-0-	-0-
Sale of property	9,932	110,939	-0-	-0-
Total	\$ <u>6,346,641</u>	\$ <u>8,470,443</u>	\$ <u>4,248,249</u>	\$ <u>4,977,854</u>
Disbursements:				
Operating:				
Public safety	\$ 983,002	\$ 1,043,969	\$ 1,281,470	\$ 1,084,826
Public works	1,132,733	1,119,022	800,153	756,129
Culture and recreation	833,871	811,031	720,360	727,450
Community and economic dev	211,368	359,763	361,077	377,533
General government	465,307	466,907	389,961	294,416
Debt service	1,124,564	633,710	488,448	512,095
Capital projects	2,947,130	2,274,980	544,516	989,072
Total	\$ <u>7,697,975</u>	\$ <u>6,709,382</u>	\$ <u>4,585,985</u>	\$ <u>4,741,521</u>

See Accompanying Independent Auditor's Report.

CITY OF HARLAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

Grantor/Program	CFDA Number	Agency Pass-thorough Number	Program Expenditures
Direct:			
U.S. Department of Homeland Security Federal Emergency Management Agency Assistance to Firefighters Grant	97.044	EMW 2007-FO-034	\$ 16,766
Department of Transportation Federal Aviation Administration Airport Improvement Program	20.106	AIP 3-19-0042-05	276,864
Indirect:			
Department of Transportation Iowa Department of Transportation Highway Planning and Construction	20.205	STP-U-3275(602)-70-83	869,305
Total			\$ <u>1,162,935</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Harlan and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 28, 2009

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

305 W. High Street
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated August 28, 2009. My report expressed unqualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Harlan's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Harlan's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Continued . . .

Member of American Institute of Certified Public Accountants,
Iowa Society of CPA's and AICPA⁴⁶ Private Companies Practice Section

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Harlan's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Harlan's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I did not note any significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Harlan's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Harlan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Continued . . .

August 28, 2009
To the Honorable Mayor and
Members of the City Council
Page Three

The City of Harlan's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the City's responses, I did not audit the City of Harlan's responses and accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Harlan and other parties to whom the City of Harlan may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Harlan during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Murphy Associates, CPA, P.C.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 28, 2009

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

305 W. High Street
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the City Council:

Compliance

I have audited the compliance of the City of Harlan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The City of Harlan's major program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Harlan's management. My responsibility is to express an opinion on the City of Harlan's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Harlan's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Harlan's compliance with those requirements.

Continued . . .

August 28, 2009

To the Honorable Mayor and
Members of the City Council:
Page Two

In my opinion, the City of Harlan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Harlan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City of Harlan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Harlan's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

 Murphy & Associates, CPA, P.C.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) The audit did not disclose any significant deficiencies in internal control over financial reporting.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) The audit did not disclose any significant deficiencies in internal control over the major program.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .501(a).
- (g) The major program was CFDA Number 20.205 - Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Harlan did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

No matters were noted.

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part IV: Other Findings Related to Statutory Reporting:

IV-A-09 Certified Budget - For the year ended June 30, 2009, disbursements in the public safety, culture and recreation, general government and debt service functions exceeded the amounts budgeted.

Recommendation - The budget should have been monitored more closely at the functional level and amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa.

Response - The budget will be monitored and amended accordingly in the future.

Conclusion - Response accepted.

IV-B-09 Questionable Disbursements - I did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1970. However, I did note instances in which documentation was not available to substantiate training, travel, and conference reimbursements.

Recommendation - The City should review procedures to insure that all training, travel, and conference reimbursements are properly substantiated.

Response - We will review our policy and procedures.

Conclusion - Response accepted.

IV-C-09 Travel Expense

No disbursements of city money for travel expense of spouses of city officials or employees were noted.

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part IV: Other Findings Related to Statutory Reporting: (Continued)

IV-D-09 Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business connection	Transaction Description	Amount
Jay Christensen, P & Z Board, Owner Dr. Jay's Eyecare	Employee benefits	812
Dave Miller, City Council, Owner Harlan Flower Shop	Miscellaneous	184
Keith Kaufman, City Council, Owner Westside	Miscellaneous	91
		\$ <u>1,087</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council and Planning and Zoning Board Members do not appear to represent a conflict of interest since total transactions with each individual were less than \$1,500 during the year.

IV-E-09 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure adequate coverage for current operations.

IV-F-09 Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not.

IV-G-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-09 Revenue Notes

The City has no revenue debt at June 30, 2009.

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part IV: Other Findings Related to Statutory Reporting: (Continued)

IV-I-09 Payment of General Obligation Bonds

General Obligation Bonds were paid from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

IV-J-09 Financial Condition - The following Funds had deficit balances as of June 30, 2009:

<u>Fund</u>	<u>Deficit</u>
Special Revenue - Housing Rehab	\$ 2,603
Special Revenue - Local Option Tax	36,189
Special Revenue - Fire Grant	3,802
Capital Projects - Harlan Plaza	858
Capital Projects - Airport Improvement	67,197
Capital Projects - Sewer Rehabilitation	150,418
Capital Projects - Street Overlay	112,002
Capital Projects - College Park Plaza	18,628
Capital Projects - Fire Station	4,690
Total	\$ <u>396,387</u>

Recommendation - The City should monitor these deficits in order to return these funds to a sound financial position.

Response - The deficits will be eliminated upon the receipt of grants and the completion of the projects.

Conclusion - Response accepted.

CITY OF HARLAN

HARLAN, IOWA 51537

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Harlan, Iowa.

The City's receipts totaled \$8,376,308 for the year ended June 30, 2009 a 19 percent decrease from 2008. The receipts included \$1,726,144 in property tax, \$517,593 from tax increment financing, \$2,693,420 from charges for services, \$762,669 from operating grants, contributions and restricted interest, \$1,280,168 from capital grants, contributions and restricted interest, \$20,198 from unrestricted investment earnings, \$528,410 from bond proceeds and \$847,706 from other general receipts.

Disbursements for the year totaled \$9,300,038, an 11 percent increase from 2008, which included \$2,947,130 for capital projects, \$1,132,733 for public works, and \$1,124,564 for debt service. Also, disbursements for business type activities totaled \$578,240.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's website at [http:// auditor.iowa.gov / reports / reports.htm](http://auditor.iowa.gov/reports/reports.htm).

